

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

**AUDIT REPORT  
OF**

**RUSH MEMORIAL HOSPITAL  
A COMPONENT UNIT OF  
RUSH COUNTY, INDIANA**

**January 1, 2011 to December 31, 2011**



**FILED**  
05/11/2012



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#### HOSPITAL OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Bradley Smith	01-01-11 to 12-31-12
Treasurer/Chief Financial Officer	Karen Meyer	01-01-11 to 12-31-12
Chairman of the Hospital Board	Linda Levi	01-01-11 to 12-31-12
President of the Board of County Commissioners	Thomas Barnes	01-01-11 to 12-31-12



**STATE OF INDIANA**  
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**INDEPENDENT AUDITOR'S REPORT**

TO: THE OFFICIALS OF THE RUSH MEMORIAL HOSPITAL, RUSH COUNTY, INDIANA

We have audited the accompanying financial statements of the Rush Memorial Hospital (Hospital) as of and for the year ended December 31, 2011, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Rush Memorial Hospital Foundation, a blended component unit, which represent 2 percent and .4 percent, respectively, of the assets and revenues of the Hospital.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of December 31, 2011, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital has not presented Management's Discussion and Analysis, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

April 18, 2012

RUSH MEMORIAL HOSPITAL  
A COMPONENT UNIT OF RUSH COUNTY, STATE OF INDIANA  
STATEMENT OF NET ASSETS  
December 31, 2011

<u>Assets</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total Reporting Entity</u>
Current assets:			
Cash and cash equivalents	\$ 1,609,177	\$ 169,932	\$ 1,779,109
Patient accounts receivable, net of estimated uncollectibles of \$3,639,209	4,099,562	-	4,099,562
Supplies and other current assets	1,118,429	-	1,118,429
Noncurrent cash and investments:			
Internally designated	28,080	-	28,080
Other long-term investments	263,018	120,119	383,137
Restricted by contributors and grantors	1,223,260	-	1,223,260
Restricted for capital acquisitions	143,015	-	143,015
Restricted for specific operating purposes	25,675	-	25,675
Capital assets:			
Land	164,978	-	164,978
Construction work in progress	618,150	-	618,150
Depreciable capital assets, net of accumulated depreciation	<u>8,580,112</u>	<u>-</u>	<u>8,580,112</u>
Total assets	<u>\$ 17,873,456</u>	<u>\$ 290,051</u>	<u>\$ 18,163,507</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Short-term debt and current maturities of long-term debt	\$ 1,125,411	\$ -	\$ 1,125,411
Accounts payable and accrued expenses	2,754,335	-	2,754,335
Estimated third-party payor settlements	200,000	-	200,000
Long-term debt, net of current maturities	<u>2,974,524</u>	<u>-</u>	<u>2,974,524</u>
Total liabilities	<u>7,054,270</u>	<u>-</u>	<u>7,054,270</u>
Net assets:			
Invested in capital assets, net of related debt	5,930,369	-	5,930,369
Restricted:			
Internally designated	28,080	-	28,080
Expendable for capital acquisitions	143,015	-	143,015
Expendable for specific operating activities	25,675	290,051	315,726
Nonexpendable permanent endowments	1,223,260	-	1,223,260
Unrestricted	<u>3,468,787</u>	<u>-</u>	<u>3,468,787</u>
Total net assets	<u>10,819,186</u>	<u>290,051</u>	<u>11,109,237</u>
Total liabilities and net assets	<u>\$ 17,873,456</u>	<u>\$ 290,051</u>	<u>\$ 18,163,507</u>

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL  
A COMPONENT UNIT OF RUSH COUNTY, STATE OF INDIANA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended December 31, 2011

	Hospital	Foundation	Eliminations	Total Reporting Entity
Operating revenues:				
Net patient service revenue (net of provision for bad debt)	\$ 19,750,643	\$ -	\$ (24,700)	\$ 19,725,943
Other	<u>1,173,121</u>	<u>-</u>	<u>-</u>	<u>1,173,121</u>
Total operating revenues	<u>20,923,764</u>	<u>-</u>	<u>(24,700)</u>	<u>20,899,064</u>
Operating expenses:				
Salaries and benefits	12,821,464	-	42,202	12,863,666
Medical supplies and drugs	2,392,511	-	-	2,392,511
Insurance	233,268	-	-	233,268
Other supplies	4,290,972	-	-	4,290,972
Other expense	306,940	-	-	306,940
Depreciation and amortization	<u>1,282,530</u>	<u>-</u>	<u>-</u>	<u>1,282,530</u>
Total operating expenses	<u>21,327,685</u>	<u>-</u>	<u>42,202</u>	<u>21,369,887</u>
Operating loss	<u>(403,921)</u>	<u>-</u>	<u>(66,902)</u>	<u>(470,823)</u>
Nonoperating revenues (expenses):				
Investment income	41,075	(723)	-	40,352
Noncapital grants and contributions	117,392	196,249	-	313,641
Other	<u>5,109</u>	<u>(111,626)</u>	<u>66,902</u>	<u>(39,615)</u>
Total nonoperating revenues (expenses)	<u>163,576</u>	<u>83,900</u>	<u>66,902</u>	<u>314,378</u>
Increase (decrease) in net assets	<u>(240,345)</u>	<u>83,900</u>	<u>-</u>	<u>(156,445)</u>
Net assets beginning of the year	<u>11,059,531</u>	<u>206,151</u>	<u>-</u>	<u>11,265,682</u>
Net assets end of the year	<u>\$ 10,819,186</u>	<u>\$ 290,051</u>	<u>\$ -</u>	<u>\$ 11,109,237</u>

The accompanying notes are an integral part of the financial statements.

RUSH MEMORIAL HOSPITAL  
A COMPONENT UNIT OF RUSH COUNTY, STATE OF INDIANA  
STATEMENT OF CASH FLOWS - RESTRICTED AND UNRESTRICTED FUNDS  
Year Ended December 31, 2011

	<u>2011</u>
Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 19,772,474
Payments to suppliers and contractors	(6,842,120)
Payments to employees	(12,973,187)
Other receipts and payments, net	<u>622,157</u>
Net cash provided by operating activities	<u>579,324</u>
Cash flows from noncapital financing activities:	
Noncapital grants and contributions	196,249
Repayments under temporary loans	<u>(262,933)</u>
Net cash used by noncapital financing activities	<u>(66,684)</u>
Cash flows from capital and related financing activities:	
Capital grants and contributions	117,392
Purchase of capital assets	<u>(964,271)</u>
Net cash used by capital and related financing activities	<u>(846,879)</u>
Cash flows from investing activities:	
Interest and dividends on investments	40,353
Change in assets whose use is limited, net	(109,864)
Unrealized loss on investment	<u>(39,615)</u>
Net cash used by investing activities	<u>(109,126)</u>
Net decrease in cash and cash equivalents	(443,365)
Cash and cash equivalents at beginning of year	<u>2,222,474</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,779,109</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Assets:	
Cash and cash equivalents in current assets	\$ 1,779,109
Total cash and cash equivalents	<u><u>\$ 1,779,109</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ (470,823)
Adjustments to reconcile operating income (loss) to net cash flows used in operating activities:	
Depreciation and amortization	1,282,530
Provision for bad debts	(3,639,209)
(Increase) decrease in current assets:	
Patient accounts receivable	3,685,740
Supplies and other current assets	(338,205)
Increase (decrease) in current liabilities:	
Accounts payable and accrued expenses	610,255
Estimated third-party payor settlements	<u>(550,964)</u>
Net cash provided in operating activities	<u><u>\$ 579,324</u></u>
Noncash investing, capital, and financing activities:	
The Hospital held investments at December 31, 2011, with a fair value of \$1,683,048.	
During 2011, the net increase in the fair value of these investments was \$111,058.	

The accompanying notes are an integral part of the financial statements.



RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

Rush Memorial Hospital (Hospital) is a county-owned facility and operates under the Indiana County Hospital Law, Indiana Code 16-22. The Hospital provides short-term inpatient and outpatient health care.

The Board of County Commissioners of Rush County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Rush County.

On October 1, 1945, the Board of County Commissioners of Rush County, upon written request of the Hospital Board of Trustees created the Rush Memorial Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose of financing and constructing hospital facilities for the Hospital.

The accompanying financial statements present the activities of the Hospital (primary government) and its significant component unit. The component unit discussed below is included in the Hospital's reporting entity because of the significance of its operational or financial relationships with the Hospital. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

The Rush Memorial Hospital Foundation is a significant blended component unit of the Hospital. Although it is legally separate from the Hospital, the Foundation is reported as if it were a part of the Hospital because it provides services entirely or almost entirely to the Hospital.

B. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Hospital has elected not to follow subsequent private-sector guidance.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

Cash and cash equivalents include demand deposits and investments in highly liquid debt instruments with an original maturity date of 3 months or less.

Short-term investments are investments with remaining maturities of up to 90 days.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Statutes authorize the Hospital to invest in interest-bearing deposit accounts, passbook savings accounts, certificates of deposit, money market deposit accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Nonparticipating certificates of deposit, demand deposits, and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investments in affiliated companies are reported using the equity method of accounting, or at cost, as applicable.

Other investments are generally reported at fair value.

Investment income, including changes in the fair value of investments, is reported as nonoperating revenues in the Statement of Revenues, Expenses, and Changes in Net Assets.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, and equipment, are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the financial statements are as follows:

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land improvements	\$ 1,000	Straight-line	5-25 years
Buildings and improvements	1,000	Straight-line	5-40 years
Equipment	1,000	Straight-line	3-10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Hospital during the current year was \$208,503.

#### 4. Net Assets

Net assets of the Hospital are classified in four components.

Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, contributors, or enabling legislation external to the Hospital.

The financial statements report \$1,420,030 of restricted net asset, of which none is restricted by enabling legislation.

Restricted nonexpendable net assets equal the principal portion of permanent endowments.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

#### D. Grants and Contributions

From time to time, the Hospital receives grants from Rush County and the State of Indiana as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

E. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Hospital Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

F. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

G. Operating Revenues and Expenses

The Hospital's Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

H. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue represents the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

I. Premium Revenue

The Hospital had agreements with various health management organizations (HMO's) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMO's make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

J. Charity Care

The Hospital has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because the agency does not expect payment, estimated charges for charity are not included in revenue.

K. Supplies

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-first-out) or market.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

L. Compensated Absences

1. Sick Leave

Hospital employees earn sick leave at the rate of 8 hours per each 320 hours paid. Unused sick leave may be accumulated to a maximum of 480 hours. Accumulated sick leave is not paid to employees.

2. Paid Time-Off

Hospital employees earn paid time off (PTO) at rates from .0537 hour to .1160 hour per hour scheduled to work based upon the number of years of service. PTO may be accumulated to a maximum of 335 hours. Accumulated PTO is paid to employees through cash payments upon termination of employment.

Paid time off is accrued when incurred and reported as a liability.

M. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents

The carrying amount reported in the statement of net assets for cash and cash equivalents approximates its fair value.

Short-Term Investments

The carrying amount reported in the statement of net assets is the investment's fair value on the day it becomes a short-term investment.

Investments

Fair values, which are the amounts reported in the statement of net assets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

Accounts Payable and Accrued Expenses

The carrying amount reported in the statement of net assets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the statement of net assets for estimated third-party payor settlements approximates its fair value.

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Long Term Debt

Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

II. Detailed Notes

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 16-22-3-16 allows a Hospital Governing Board to deposit public funds in a financial institution. The Hospital does not have a deposit policy for custodial credit risk. At December 31, 2011, the Hospital had deposit balances in the amount of \$1,779,109.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 16-22-3-20. As of December 31, 2011, the Hospital and the Hospital Foundation had the following investments:

Investment Type	Primary Government Market Value
U.S. treasuries and securities	\$ 102,831
U.S. agencies	61,980
Complimentary strategies mutual funds	77,830
Real assets mutual funds	115,451
Mutual bond funds	928,532
Total	<u>\$ 1,286,624</u>

Investment Type	Hospital Foundation Market Value
Mutual bond funds	<u>\$ 97,764</u>

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Statutory Authorization for Investments

Indiana Code 16-22-3-20 authorizes the Hospital to invest in:

Any interest bearing account that is authorized to be set up and offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Repurchase or resale agreements involving the purchase and guaranteed resale of any interest bearing obligations issued or fully insured or guaranteed by the United States or any United States government agency in which type of agreement the amount of money must be fully collateralized by interest bearing obligations as determined by the current market value computed on the day the agreement is effective.

Mutual funds offered by a financial institution or brokerage firm registered and authorized to do business in Indiana.

Securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Pooled fund investments for participating hospitals offered, managed, and administered by a financial institution or brokerage firm registered or authorized to do business in Indiana.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Hospital does not have a formal investment policy for custodial credit risk for investments.

The Hospital Foundation has not adopted an investment policy for custodial credit risk for investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy for interest rate risk for investments.

The Hospital Foundation has not adopted a formal investment policy for interest rate risk.

Investment Type	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More Than 10
U.S. treasuries and securities	\$ 50,291	\$ 52,540	\$ -	\$ -
U.S. agencies	8,781	53,199	-	-
Complimentary strategies mutual funds	77,830	-	-	-
Real assets mutual funds	115,451	-	-	-
Mutual bond funds	928,532	-	-	-
Totals	<u>\$ 1,180,885</u>	<u>\$ 105,739</u>	<u>\$ -</u>	<u>\$ -</u>

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Hospital Foundation

Investment Type	Investment Maturities (in Years)			
	Less Than 1	1-5	6-10	More Than 10
Mutual bond funds	\$ 97,764	\$ -	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below. The Hospital does not have a formal investment policy for credit risk for investments.

The Hospital Foundation has not adopted a policy for credit risk.

Standard and Poor's Rating	Moody's Rating	Hospital's Investments		
		Mutual Funds	Corporate Bonds	Government Sponsored Enterprise
AAA	Aaa	\$ -	\$ -	\$ 102,831
AA	Aa	-	61,980	-
Unrated	Unrated	1,121,813	-	-
Totals		\$ 1,121,813	\$ 61,980	\$ 102,831

Standard and Poor's Rating	Moody's Rating	Hospital Foundation's Investments		
		Mutual Funds	Corporate Bonds	Government Sponsored Enterprise
Unrated	Unrated	\$ 97,764	-	-

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

The Hospital Foundation has not adopted a policy for the concentration of credit risk.



RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at year end consisted of these amounts:

Patient Accounts Receivable	
Receivable from patients and their insurance carriers	\$ 4,892,956
Receivable from Medicare	2,185,563
Receivable from Medicaid	<u>660,251</u>
Total patient accounts receivable	7,738,771
Less allowance for uncollectible amounts	<u>3,639,209</u>
Patient accounts receivable, net	<u>\$ 4,099,562</u>
Accounts Payable and Accrued Expenses	
Payable to employees (including payroll taxes)	\$ 935,870
Payable to suppliers	<u>1,818,465</u>
Total accounts payable and accrued expenses	<u>\$ 2,754,335</u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 164,978	\$ -	\$ -	\$ 164,978
Construction in progress	<u>57,726</u>	<u>616,107</u>	<u>55,683</u>	<u>618,150</u>
Total capital assets, not being depreciated	<u>222,704</u>	<u>616,107</u>	<u>55,683</u>	<u>783,128</u>
Capital assets, being depreciated:				
Buildings	12,000,218	46,683	-	12,046,901
Improvements other than buildings	235,798	-	-	235,798
Machinery and equipment	<u>11,201,314</u>	<u>357,164</u>	-	<u>11,558,478</u>
Totals	<u>23,437,330</u>	<u>403,847</u>	-	<u>23,841,177</u>

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated continued:				
Less accumulated depreciation for:				
Buildings	(5,747,317)	(361,833)	-	(6,109,150)
Improvements other than buildings	(167,816)	(16,822)	-	(184,638)
Machinery and equipment	(8,063,402)	(903,875)	-	(8,967,277)
Totals	(13,978,535)	(1,282,530)	-	(15,261,065)
Total capital assets, being depreciated, net	9,458,795	(878,683)	-	8,580,112
Total primary government capital assets, net	\$ 9,681,499	\$ (262,575)	\$ 55,683	\$ 9,363,240

D. Construction Commitments

Construction work in progress is composed of the following:

Project	Expended to December 31, 2011
Possible Building Purchase	\$ 2,000
Medical Office Buildings	560,424
Pediatric Building	55,726
Total	\$ 618,150

E. Leases

Capital Leases

The Hospital has entered into various capital leases for medical equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of year end are as follows:

2012	\$ 27,471
2013	27,471
2014	27,471
2015	27,471
2016	18,313
Total minimum lease payments	128,197
Less amount representing interest	13,493
Present value of net minimum lease payments	\$ 114,704

RUSH MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
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Assets acquired through capital leases still in effect are as follows:

Machinery and equipment	\$ 218,045
Accumulated depreciation	<u>(80,762)</u>
Total	<u><u>\$ 137,283</u></u>

F. Short-Term Liabilities

The Hospital uses a revolving line of credit and short-term loans to finance a variety of public projects, including operating funds.

Short-term debt activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Line of credit, loans, notes	<u>\$ 507,354</u>	<u>\$ 559,709</u>	<u>\$ 400,000</u>	<u>\$ 667,063</u>

G. Long-Term Liabilities

1. Notes Payable

The Hospital has entered into various notes. Annual debt service requirements to maturity for the notes, including interest of \$1,151,030, are as follows:

2012	\$ 584,699
2013	555,024
2014	543,278
2015	240,887
2016	180,248
Thereafter	<u>2,365,061</u>
Total	<u><u>\$ 4,469,196</u></u>

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Capital leases	\$ 178,340	\$ -	\$ 63,636	\$ 114,704	\$ 22,477
Notes and loans payable	<u>3,677,174</u>	<u>69,000</u>	<u>428,007</u>	<u>3,318,167</u>	<u>435,870</u>
Total long-term liabilities	<u><u>\$ 3,855,514</u></u>	<u><u>\$ 69,000</u></u>	<u><u>\$ 491,643</u></u>	<u><u>\$ 3,432,871</u></u>	<u><u>\$ 458,347</u></u>

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NOTES TO FINANCIAL STATEMENTS  
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H. Endowments and Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	<u>2011</u>
Cumulative Building Fund:	
Purchase of capital assets	\$ 143,015
Bio-Terrorism Grant:	
Specific operating activities	25,675
Foundation:	
Specific operating activities	<u>290,051</u>
Total expendable, restricted net assets	<u>\$ 458,741</u>

Unless the contributor provides specific instructions, state statute permits the Hospital Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Hospital Board is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

Restricted nonexpendable net assets as of year-end represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the Hospital's permanent endowments are expendable to support these programs as established by the contributor:

	<u>2011</u>
Donation Fund - Pattison-Schrichte Farm	\$ 56,665
Donation Fund - Equity Stock	8,781
Donation Fund - Holl-Kirk Estate	165,290
Donation Fund - Myers Estate	<u>992,524</u>
Total restricted nonexpendable net assets	<u>\$ 1,223,260</u>

I. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

1. Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare

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beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

2. Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 41 percent and 16 percent, respectively, of the Hospital's net patient revenue for the year ended 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2011 net patient service revenue increased approximately \$834,052 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, HMO's, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

J. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$576,147 for 2011.

K. Internally Designated Assets

Noncurrent cash and investments internally designated include the following:

1. Funded Depreciation – Amounts transferred from the Operating Fund by the Hospital Board of Trustees through funding depreciation expense. Such amounts are to be used for equipment and building, remodeling, repairing, replacing or making additions to the Hospital buildings as authorized by Indiana Code 16-22-3-13.
2. Capital Improvement Funds – Funds designated by the Hospital Board of Trustees for construction and other capital improvement.
3. Designated Funds – Assets set aside by the Hospital Board of Trustees for identified purposes and over which the Board retains control and may, at its discretion, subsequently use for other purposes.

RUSH MEMORIAL HOSPITAL  
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Internally designated:	
Funded depreciation:	
Cash and cash equivalents	\$ 7,013
Board designation:	
Investments	21,067
Total internally designated	\$ 28,080

III. Other Information

A. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees and Dependents

The Hospital has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is accounted for in the Operating Fund where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors.

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Changes in the balance of claim liabilities during the past two years are as follows:

	2010	2011
Unpaid claims, beginning of fiscal year	\$ 213,780	\$ 118,423
Incurred claims and changes in estimates	812,020	1,052,187
Claim payments	<u>(907,377)</u>	<u>(854,137)</u>
Unpaid claims, end of fiscal year	<u>\$ 118,423</u>	<u>\$ 316,473</u>

B. Contingent Liabilities

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

C. Fair Value Measurements

The Hospital has characterized its investments in securities, based on the priority of the inputs used to value the investments, into a three level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Investments recorded in the statement of net assets are categorized based on the inputs to valuation techniques as follows:

Level 1 – These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Hospital has the ability to access. Investments include mutual funds and corporate equity securities.

Level 2 – These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments. These investments are comprised of corporate and municipal bonds that trade infrequently and privately held securities and certificates of deposit.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments could be certain private equity investments.

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Based upon the levels as defined, the investments as of December 31, 2011, are classified as follows:

Hospital Investment Type	December 31, 2011	Fair Value Measurements at Reporting Date Using: <u>Quoted Prices in Active Markets For Identical (Level 1)</u>
U.S. Agencies	\$ 61,980	\$ 61,980
U.S. government securities	102,831	102,831
Mutual funds	<u>1,121,813</u>	<u>1,121,813</u>
Totals	<u>\$ 1,286,624</u>	<u>\$ 1,286,624</u>

Foundation Investment Type	December 31, 2011	Fair Value Measurements at Reporting Date Using: <u>Quoted Prices in Active Markets For Identical (Level 1)</u>
Mutual funds	<u>\$ 97,764</u>	<u>\$ 97,764</u>

D. Estimated Third-Party Settlements

Regulations in effect require annual retroactive settlements for third-party settlements based upon cost reports filed by the Hospital. These retroactive settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the year in which they occur. During 2011, net patient service revenues in the accompanying statements of operations were increased by \$834,052, to reflect changes in the estimated settlements for certain prior years.



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E. Pension Plan

Defined Contribution Pension Plan

Plan Description

The Hospital has a defined contribution pension plan administered by American United Life Insurance Company as authorized by Indiana Code 16-22-3-11. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the Hospital Board of Trustees and the Plan Administrator. The Plan Administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

American United Life Insurance Company  
P.O. Box 368  
Indianapolis, IN 46206-0368  
Ph. (317) 263-1877

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established and may be amended by the written agreement between the Hospital Board of Trustees and the Plan Administrator. The Hospital is required to match employees' contributions up to 5 percent. Employer contribution payable to the plan was \$232,020 at December 31, 2011.

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EXIT CONFERENCE

The contents of this report were discussed on April 18, 2012, with Bradley Smith, Executive Officer; Karen Meyer, Treasurer/Chief Financial Officer; Ashley Kinder, Controller; and Linda Levi, Chairman of the Hospital Board. Our audit disclosed no material items that warrant comment at this time.